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Republic of Mozambique and the IMF

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May 9, 2014

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Republic of Mozambique: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

April 23, 2014

REPUBLIC OF MOZAMBIQUE

Letter of Intent

Maputo, Mozambique
April 23, 2014

Ms. Christine Lagarde
Director General
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Lagarde:

The Government of Mozambique requests the completion of the second review under the Policy Support Instrument (PSI) and the modification of three assessment criteria and two indicative targets for June 2014 to account for our revised projections, which reflect receipt of new windfall revenues in March 2014, and the need to approve a supplementary Budget for 2014. It also requests (i) an increase of $300 million in the nonconcessional borrowing ceiling to accommodate financing requirements for high priority investment projects; (ii) to set assessment criteria and indicative targets for end-December 2014; (iii) the modification of one structural benchmark on tax payments through banks and the addition of a new end-December 2014 benchmark on pending VAT reimbursement requests. In support of this request, we are transmitting the attached Memorandum of Economic and Financial Policies (MEFP), which reviews implementation of the program supported by the current PSI and establishes policy objectives and assessment criteria and indicative targets for the short and medium term.

The Government's economic program aims to maintain macroeconomic stability, promote inclusive growth through public investment and the promotion of productive employment, and reduce poverty. The program is in line with our Poverty Reduction Strategy Paper (PARP) for 2011–14, and with our plans regarding its successor strategy.

The Government is of the view that the policies outlined in the MEFP are adequate to achieve the objectives of the PSI-supported program. We stand ready to take any additional measures necessary to achieve our policy objectives.

The Government will consult with the IMF on the adoption of these measures, and—at its own initiative or whenever the Managing Director requests such a consultation—in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The Government will provide the IMF with such information as the IMF may request to be able to assess the progress made in implementing the economic and financial policies and achieving the objectives of the program.

The Government authorizes the publication of this Letter of Intent, its attachments and the associated staff report.

Sincerely yours,

/s/	/s/
Manuel Chang	**Ernesto Gouveia Gove**
Minister of Finance	**Governor**
	Bank of Mozambique

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Republic of Mozambique

Attachment 1—Memorandum of Economic and Financial Policies

of April 23, 2014

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

1. This MEFP (i) describes recent developments and performance of the Government's economic program under the three-year Policy Support Instrument (PSI) since the 1st review, and (ii) elaborates on economic and structural policy intentions. It builds on the MEFP underlying the First PSI Review of December 2013.

2. The Mozambican economy remains strong and may benefit from the projected gradual recovery of the global economy.

- **Economic growth**. The economy remained robust in 2013, despite the effects of the floods early in the year. In 2013, economic activity grew by 7.0 percent, on a preliminary basis, in line with the projected growth for the year. The main growth sectors were the production of coal, transport and communications, financial services and construction.

- **Inflation and monetary policy.** Inflation remained low in 2013 with an annual average rate of 4.2 percent, representing a slight acceleration compared with the previous year. The Bank of Mozambique's (BM) prudent management of liquidity helped to achieve the low inflation outcome, combined with stable administered prices and recovery of food production after the floods. End-2013 reserve money was slightly below the program target, while broad money expanded by 16.3 percent year-on-year. Credit growth, while still high at 28.7 percent, started to slow down.

- **Exchange rate.** The Metical remained stable in the foreign exchange markets as a result of a greater availability of foreign currency in the market following the increase in foreign direct investment. The BM intervened in the foreign exchange market to smoothen temporary volatilities.

- **External current account deficit.** Notwithstanding lower international commodity prices, our exports strengthened in the first 9 months of 2013, and the current account deficit improved in the first three quarters of 2013, compared with the same period of 2012, owing to the favorable performance of current transfers and services. The impact of the floods on the current account was limited.

- **Fiscal Policy.** Fiscal operations in 2013 generated an estimated overall deficit (after grants) of 3 percent of GDP against 4.6 percent programmed. Revenue was largely in line with the program, aided in part by the receipt in August 2013 of $400 million (2.1 percent of GDP) capital gains taxes from the sale of shares in a gas concession in the Rovuma basin. All categories of current spending were slightly lower than programmed, while capital expenditure was implemented largely as programmed. Preliminary data on priority spending, which accounts for 2/3 of the budget, fell short of the rather ambitious target we had set, reflecting shortfalls in donor funding and implementation lags. Project grant receipts exceeded expectations, but budget support grants were lower than programmed. The smaller than programmed overall deficit allowed the government to build its deposits in the banking system despite a shortfall in net external financing.

- **FDI, aid/loan disbursements, reserves.** The country continued to benefit from a strong inflow of foreign direct investment (an estimated 20 percent increase compared to 2012) associated mainly with the development of natural resources and related services. In addition, the economy has benefited from windfall gains from the sale of shares of companies in the natural gas sector, which helped to boost international reserves in the second half of the year. While the shortfall in foreign aid disbursement in the fourth quarter created some pressures on net international reserves, the stock at end-2013 reached $2.996 million (about 5 months of current imports of goods and non-factor services excluding mega projects).

3. **Program Performance**

- **All assessment criteria (AC) and indicative targets (IT) through end-December 2013 were met, except the IT for expenditure in priority sectors,** which was missed largely due to delays in the disbursement of donor flows. The quantitative target for net international reserves was met after adjusting for the shortfall in external program aid ($87 million). The target for reserve money – the operating target of monetary policy – was met. Revenue collection, bank credit to government and nonconcessional foreign borrowing were within the program targets (Table 1).

- **The structural benchmarks for end-February and end-March 2014 were met**, albeit one with a brief delay, concerning the submission to the Parliament of the draft law on the creation of private credit registry bureaus, the validation of pending VAT reimbursement requests (delayed to mid-April), and the expansion of direct salary payments by bank transfer. The remaining structural benchmarks for 2014 are under way and are expected to be completed in due time (Table 2).

MACROECONOMIC POLICIES

A. Economic Objectives

4. **Economic outlook 2014-19:** We expect that economic growth in the medium term holds up high and is robust, reflecting the boom in the mining industry and the hydrocarbon sector. In addition, the recovery of the world economy should support the dynamics in expanding sectors.

   - **GDP growth.** The economy is expected to grow by 8.3 percent in 2014 as a result of strong growth in agriculture, extractive industries, transport and communications, financial services and the electricity sector. In the next five years, the expansion of the rail network should allow an increase in coal production and exports. The implementation of other infrastructure projects, the development of natural gas liquefaction, the related activity in transport and communications and construction, and a continued strong performance in other sectors are projected to keep economic growth at an average of 8 percent a year.

- **Inflation:** In January and February 2014 the monthly inflation rates were 1.1 and 0.7 percent, respectively. For the rest of the year a slight acceleration of average inflation is expected to around 4.6 percent and year-on-year inflation of around 6 percent, in line with our medium term objective of 5-6 percent per annum. The main contributing factors are the strengthening of the US$ in the international market in light of the nascent recovery of the US economy, inflation pressures in the region, and expansionary fiscal policy.

- **External Current Account**: Balance of payment developments in the coming years (2014 – 17) will continue to be dominated by large investments in natural resource projects. In 2014, a current account deficit of around 44 percent of GDP is expected due to the increase in imports related to megaprojects. In light of the strong rise in imports in recent years, both of the megaprojects and other sectors of the economy, we plan to maintain a reserve cover of about 4½ months of projected imports of goods and services, excluding megaprojects.

B. Macroeconomic Policy Mix

5. **Macroeconomic policy mix.** The authorities will continue pursuing a combination of fiscal and monetary policies aiming at maintaining macroeconomic and financial stability, as well as promoting economic and financial inclusion.

6. **Fiscal policy will maintain fiscal sustainability**. Revenue efforts will be maintained to further strengthen revenue relative to GDP, with planned administrative measures and recent changes to the tax code allowing for uptick in income tax receipts in 2015. A gradual reduction in expenditure is envisaged, from around 42 percent of GDP in 2014 to around 34 percent of GDP in 2019. Most of the reduction would be achieved as expenditure returns to a normal path after the implementation of one-off outlays on elections and maritime security in 2014. In addition, we plan to reduce the wage bill gradually from its elevated level of 11 percent of GDP in 2014, and expenditure on goods and services and investment are also projected to ease somewhat, i.e. grow more slowly than GDP. Combined with an expected decline in grant support, we aim to reduce the overall deficit (after grants) from around 9 percent in 2014 to around 5 percent in

2019, while the domestic primary balance (before grants) would shift from a deficit of about 3 percent of GDP in 2014 to a 1 percent of GDP surplus by 2019. This could be financed by foreign borrowing and domestic market funding while maintaining fiscal and debt sustainability.

C. Monetary and Exchange Rate Policy

7. **Monetary policy will continue to focus on the objective of price stability in line with the medium-term inflation objective of 5-6 percent.**The BM will target base money growth slightly above nominal GDP to support financial deepening and to increase credit to the private sector. In light of the expansionary fiscal policy in 2014, the BM will step up its liquidity management efforts and keep base money growth to 17 percent in 2014 to contain demand pressures.

8. **We remain committed to a flexible exchange rate regime.** The BM will allow the exchange rate to adjust freely to reflect the evolving patterns of trade and financial flows and closely monitor developments in the real effective exchange rate vis-à-vis a broad basket of currencies, with a view to ensuring external competitiveness and a prudent level of international reserves.
9. **The Mozambican authorities remain committed to their obligations under Article VIII, sections 2, 3, and 4 of the Fund's Articles of Agreement.** The BM will continue to monitor the implementation of the new foreign exchange regulations, its implementation norms, as well as the functioning of the foreign exchange market, with a view to avoiding practices that could turn out to be inconsistent with Article VIII principles. We will keep IMF staff informed of any developments that could potentially run against those principles.

D. Fiscal Policy

10. **Objectives of fiscal policy.** The Government is committed to maintaining macroeconomic stability, promote sustainable and inclusive economic growth, and rationalize the use of public resources.

- **The 2014 budget aims to continue revenue raising efforts and reflects strong expenditure pressures.** Excluding windfall receipts, revenue (net of VAT refund requests) is projected to reach about 24.3 percent of GDP, an increase from 23.3 percent in 2013. Current expenditure (incl. on maritime security) will rise to23.3 percent of GDP from 20.1 percent in 2013. Capital spending is budgeted to rise sharply to 15.9 percent of GDP from 13.4 percent in 2013 both financed from domestic and external resources as we are trying to improve the available public infrastructure.

- This will result in a sizeable increase in the overall deficit and weaken the domestic primary balance, while foreign financing is projected to surge.

11. Revenue outlook and supplementary budget

- **Further capital gains taxes** have been received ($520 million) in March 2014. We agree that such one-off receipts should not finance recurrent spending increases that could compromise fiscal sustainability over the medium term, but we are not prepared to set up a formal fiscal rule at this point and leave that for the new government to consider. However, we are committed to saving fiscal revenue windfalls, including from direct or indirect natural resource taxation, or use them only for investment spending, debt reduction, or exceptional needs. Given an already expansionary fiscal stance in 2014, seventy-five percent of the windfall tax receipts of March will be saved to provide a fiscal buffer for future budgets.

- **The Government will request an amendment to the Budget Law for 2014 in the first semester,** due to the recent approval of an Electoral Package-Law by the Parliament that mandates additional expenditures for the October 15 elections (about $36 million, bringing the total budgeted cost of the elections to $116 million). This, and additional spending required to complete investment projects that lost foreign support in 2013 ($25 million), will be financed by extraordinary revenues from the new capital gains revenue. We also plan to use some $100 million of the windfalls receipts to reimburse pending VAT refund requests.

12. Expenditure Policy

- **The surge in public spending in 2014** reflects (i) the 2013 wage increases and new hiring and promotions, especially in education, health, and justice; (ii) improved provision of services to the population, particularly through the national healthcare system; (iii) an increase in debt service; (iv) budget allocations for the general elections; (v) the setting up of some new districts and municipalities in 2013; and (vi) strengthening basic social programs, including military pensions.

- Expenditure **in priority sectors.** The Government is continuing its efforts to increase the resources allocated to the priority sectors of the PARP, which together represent 64.2 percent of total budget expenditures in 2014. Given the fact that (i) the rate of execution of externally-financed capital expenditures is projected to be lower than in the initial budget; and (ii) there are special one-off factors in 2014 (maritime security and election spending), we expect priority spending to decline from 67.3 percent in 2013 to 58 percent in 2014.

- **Wage bill policy.** The government has taken some measures to contain the increase in spending on wages and salaries in recent years, including, (i) ensuring greater control in the execution of public expenditure by expanding e-Sistafe to cover most of the existing spending units (UGBs)and expanding salary payments through bank transfers and; (ii) gradual implementation of the electronic personnel management system (e-Folha), with a view to ensuring an increasing rationalization and control of the payroll of civil servants. The further increase in the wage bill in 2014 to 11 percent of GDP also reflects election-related hiring due to the recent political agreement.

- **Strengthening social protection**. The Basic Social Protection programs continue to be expanded to cover more beneficiaries (increase of 23.5 percent from 2013 to 2014). In addition, transfer payments to families are budgeted to increase by12.6 percent in 2014 due to an increase in the number of pensioners.

- **Subsidies for petroleum products**. In 2013, the government paid fuel distributors an amount of 0.5 percent of GDP covering subsidies accrued in 2012 and2013. Fuel subsidies of 0.2percent of GDP have been budgeted in 2014, reflecting declines in international fuel prices. While diesel prices are currently subsidized for general consumption (other than megaprojects, construction, public works and other large consumers), the government is monitoring the evolution of prices in the international markets and analyzing their potential impact on domestic fuel markets.

- **Electricity tariffs.** The tariffs remain unchanged since 2010, but a study on tariff adjustment was completed in June 2013 and presented to the National Council of Investment and the Council of Ministers. The Government is currently undertaking an impact assessment on how various tariff increases will affect different consumer segments. EDM made a small operating profit in 2012, albeit system maintenance needs to be strengthened, and its Performance Contract with the government is being finalized in line with Decree 84/2013, of December 31.

- **Summary of other** state **subsidies.** The Government continues to subsidize the price of wheat flour for bread, public transportation, and school feeding programs for a total of 0.2 percent of GDP in 2013. These programs will continue in 2014 and 0.1 percent of GDP have been budgeted to cover the related costs.

13. Deficit and Financing. The supplementary budget will improve the overall fiscal stance for 2014.The domestic primary deficit (before grants) is now projected at 3.3 percent of GDP. With continued strong grant support, the overall balance (after grants) is now projected at 9.3 percent of GDP, allowing us, after planned external financing of 9.2 percent of GDP (up from 5.9 percent in 2013), to draw only very little in net domestic financing this year.

E. Investment Planning and Debt Management

14. Priorities for 2014 include:

- **Strengthening of investment planning.** The revision of the Integrated Investment Plan for 2014-17 (IIP) is under way. The main objective is to provide a summary description and include appropriate financial information for each project so as to inform the DSA, MTEF and the budget process and facilitate setting priorities among competing projects. The revision is expected to be completed by end-June 2014 **(structural benchmark).**

- **Strengthening project selection instruments.** The main selection and evaluation criteria for projects have now been spelled out in the MTEF methodology consistent with the Manual of Project Selection. Sectoral ministries and province administrations will have to observe these guidelines in the preparation of their project proposals for the state budget. Two training sessions were held to familiarize line ministries and provincial departments with the criteria for the analysis and selection of public investment projects. We intend to expand training in the use of sector-specific mechanisms for the preparation of investment project proposals.

- **Implementation and Monitoring of IIP Projects.** The implementation of projects in the IIP will be the result of the budget approved for each year, and the implementation and monitoring will be done by the line ministers. The Government's mid-year and year-end economic development reports (*Balanço do PES)* will include information on the implementation of the projects.

- **Strengthening public debt management:** The preparation of the DSA 2014 is underway, including scenarios for future borrowing and sensitivity analysis. We intend to complete this assessment by July 2014, in time for the next budget cycle. We are also committed to publishing the main results of the DSA. In the medium term, we remain committed to (i) incorporating the analysis of costs and risks associated with the public debt portfolio, including guarantees, in the debt and budget execution reports, (ii) revise the Debt

Management Strategy at the time of its first review to ensure that it covers guaranteed debt and is aligned with the evolving macroeconomic framework, and (iii) develop the domestic capital markets. This will strengthen the links between the budget, the IIP, and public debt sustainability. We will expand the coverage of the DSA and the quarterly public debt reports to include government guarantees from the first quarter of 2014.

- **Guarantee management policy**. We will develop a policy to disclose all government guarantees, their beneficiaries, the gross exposures created by them, and assessment of the probability and potential impact.
- **Domestic Borrowing Plan for 2014.** We have requested technical assistance from IMF and World Bank to elaborate a domestic borrowing plan for 2014 with a view toward further development of the government bond market.

STRUCTURAL REFORMS

A. Public Financial Management and Reporting

15. Strengthening public financial management (PFM).

- **The Budget coverage of the PFM system (e-SISTAFE) continues to expand.** In 2013, the e-Sistafe was operating in 77 percent of the 939 total UGBs that compose the state budget. Our plan is to complete the roll-out of e-SISTAFE by 2015, covering 90 percent in 2014, and 95 percent in 2015 of the spending units, while developing solutions to overcome communication problems for the remaining spending units.
- **Extending the use of the treasury single account (CUT) remains a high priority**. It will help strengthen expenditure controls, cash management and PFM system integrity. As part of the program to reduce further the number of bank accounts outside the CUT, the Minister of Finance will issue an administrative order by end-September 2014, with clear rules to define conditions under which it is acceptable for state institutions to operate bank accounts outside of the single treasury account. The order will also provide guidelines on the opening of such accounts, will provide a proper categorization, and mandate the closure of those accounts that do not meet the required standards.

- **Salary payment through direct transfer to bank accounts have also been expanded**. 76 percent of civil servants registered in the electronic civil servant registry (e-CAF) and included in the *Action Plan for Direct Payment of Salaries and Expansion of the electronic salary processing system (e-Folha)*, received their wages through direct payment in December 2013. About 2/3 of these direct payments were made through e-Folha. At end-February 2014, the share of state employees receiving their salary by direct payment had increased to 89 percent. We expect to reach the target of the direct payment process to 95% of the civil service registered in the e-CAF by March 2014 **(structural benchmark)**.

- **From March to December 2014 we will create the conditions to complete the expansion of e-Folha to all civil servants and agents in institutions with direct access to e-SISTAFE** (about 90 percent of all civil servants). In addition, we will prepare to verify the registers in e-CAF for all employees through a proof-of-life audit in 2015. We also remain committed to creating a new register (e-CAP) and extending e-Folha to pensioners after completing the civil service reform.

- **The public expenditure execution process was strengthened.** The e-SISTAFE system has been adjusted in line with international standards to enable the registration of the various phases of the expenditure process (commitment, verification, and payment). We are now preparing a Technical Note to separate payment and commitment authority and facilitate enforcement of these new guidelines with the 2015 budget exercise. After its approval by the Minister of Finance, the real-time recording of the commitment, verification and payment of expenditures will become mandatory for all units operating with e-SISTAFE. We are aware that this will take time and requires a major investment in change management processes and the enhancement of internal controls. To facilitate this, the government intends to set up a Public Finance Academy.

- **Adopting international accounting standards.** A preliminary draft on Standards and Chart of Accounts based on IPSAS has been prepared under the ongoing reform to gradually adopt the Accrual Accounting System based on commitments. The implementation will require the revision of the SISTAFE Law, which includes the current Public Chart of Accounts as an annex. While we had committed to the implementation of this measure by end-2014 in the previous PSI review, following advice from recent IMF technical assistance, the Government has postponed the introduction of IPSAS for later years given the complex nature of this reform.

- **Clarifying the scope of the public sector**. We will continue our efforts to define the number of (i) public funds, autonomous entities, and other bodies of public law with legal, administrative and financial autonomy ("*equiparados*"), (ii) public enterprises and corporations owned and/or controlled by the State, and (iii) indirect shareholdings of the State, via other public entities; with the purpose to having a clearer view of the scope of the public sector by end-2014. We have been working on the status of the public funds and autonomous entities for over two years and expect to complete these efforts by end-2014.

- **Improving the management of fiscal risks**. In the medium term, we are committed to produce a comprehensive statement on fiscal risks for inclusion in the annual budget documents. With support from the World Bank, we plan to set up a risk unit in the Ministry of Finance in 2014 to initiate this work.

- **The new Economic Classifier for Revenue (CER) is being finalized** and aligned with international standards and will be used in the preparation of the state budget for 2015. This will help advance several ongoing PFM reforms and contribute to a smoother recording of revenues in the new e-tax system.

B. Tax Policy and Administration

16. Revenue administration and reforms 2014-15.

- **VAT administration and reimbursements.** The implementation of the action plan to reduce the stock of outstanding VAT refund requests is ongoing and the **structural benchmark for end-March 2014** on the validation of the stock of requests pending at end-December 2013 has been met with a slight delay in mid-April and a report on this prepared. As the administrative period for the documentation and processing of refund claims is 6 months, those refund requests from the last quarter of 2013 still pending at end-March will be validated by end-June. Also, as about 1/3 of the pending claims are pre-2013 requests, in line with TA advice the Revenue Authority will set claimants a deadline of May 2014 to fully document their request or close the process and deny the refund request.

- **The stock** of valid reimbursement requests submitted up to end-2013 will either be paid or securitized by end-2014 **(structural benchmark)**. The Government will also speed up the processing of new refund requests and ensure that validated requests are paid in a timely manner.

- **The Government** will include VAT on a net basis in the 2015 budget proposal **(structural benchmark for end-October 2014)**, and the Revenue Authority will adapt its VAT collection and refund system accordingly, with technical assistance.

- **Implementation of e-Tax and payment via banks for VAT and ISPC (simplified tax for small taxpayers).**There has been modest progress in the implementation of the new e-tax system to promote tax transparency and efficiency. The universe of taxpayers updated in e-tax (NUIT register) is only 11 percent of active VAT taxpayers with actual payments and 34 percent of active ISPC taxpayers with actual payments. VAT and ISPC taxes can only be paid through e-tax by registered entities. The use of e-tax for collecting these taxes was initially planned from the beginning of 2014, but we consider it necessary to run a pilot in two decentralized tax offices (DAFs) before we roll out the new system to avoid revenue shortfalls. The IT application for tax payments through banks is being finalized and is expected to be fully operational by October 2014 **(structural benchmark).**

- **Strengthening the large taxpayer units** (UGCs and DCAT). We are setting up UGCs in Matola, Pemba and Tete to reinforce the three existing UGCs (in Maputo, Beira and Nampula). We have the DCAT central unit for coordinating support to large taxpayers and we intend to focus its mandate on strategic issues. With support from the IMF we will set up a natural resources unit focusing on gas and coal activity in the DCAT, by late 2014. This unit will be in charge of risk assessment, audit, specialized taxpayer services and fiscal regime interpretation activities. It will be duly staffed and start functioning, initially as part of the DCAT, by end-June 2014.

- **Tax policy.** The Government is conducting a study in consultation with the private sector to verify possible inconsistencies between the general ISPC regime and the simplified tax regimes for VAT, IRPC and IRPS. After some delays it is now expected to be completed by 2014**.**We expect the study to help improve the transparency of these tax regimes, free up tax administration resources to focus on large taxpayers and reduce fraud. Previous IMF technical assistance missions have recommended to maintain only the general ISPC simplified regime and to review it, including the ad valorem tax rate, the annual flat rate and the threshold for ad valorem taxation.

- **Transfer prices.** The draft *Transfer Price Regulation* is near completion with technical assistance from the IMF. We will consult with stakeholders, and plan to submit it to the Council of Ministers for approval by September 2014.

C. Improvement of Natural Resource Management

17. Data management. To improve the information available on Mozambique's mineral resources, the Government has made available a web-based information system of geological maps that is updated regularly. Mozambique currently has an airborne geophysical coverage of 75%, and a survey program is underway to expand this to full national coverage. In addition, a database of the occurrence of hydrocarbons and the mining cadastre are available online. It is expected that in the near future new applications for mining concessions will be processed online.

18. **Extractive Industry Transparency Initiative (EITI).** The fourth report on transparency initiative related to 2011 has been finalized and submitted to the international EITI Secretariat. This report covers all active mining and oil companies that satisfied the level of tax payment set by the Multi-Stakeholder Steering Committee of the EITI (Mt 500,000 or about $16,000). The Government is disseminating the EITI reports and raising public awareness of their contents through a public education campaign. In 2013 the Government started to publish the contracts in the mineral resources sector, including the applicable tax provisions.

19. **Mining and Hydrocarbon Legislation.** The revised Mining and Petroleum Laws have been submitted to Parliament and are expected to be approved by mid-2014. The revisions aim to: (i) update the laws to current challenges in the sector; (ii) attracts investment to the sector, and (iii) cover new products such as liquefied natural gas and methane gas. After the adoption of the Laws by Parliament, implementing regulations will be drafted.

20. **Strengthening the Mining and Hydrocarbon Tax Regime**. We have submitted these draft laws to the Council of Ministers in March 2014. After their approval they will be submitted to parliament and we expect these to be approved by end-2014.Once the new fiscal regime is approved, we will prepare its regulations. We expect to auction new exploration concessions after the Mining and Hydrocarbon Laws and associated Fiscal Regimes are approved.

21. **To facilitate the development of natural gas liquefaction** from Areas 1 and 4 of the Rovuma basis, the Government plans to request legislative authorization to establish a special regime for these operations.

D. Public Enterprise Management

22. **Strengthening supervision of public enterprises**.

- We have modernized the legislation applicable to fully-owned state enterprises created with social objectives under the public law regime (SOEs). This includes the Law 6/12on Public Enterprises and its implementing regulations (Decree

84/2013, of December 31, 2013).For better monitoring of the 14 SOEs operating under this regime, these enterprises will submit their plans, budgets, audited accounts and quarterly reports to the Ministry of Finance, and we plan to prepare summary reports on SOE operations for the Council of Ministers on an annual basis. Also, the monitoring of fiscal risks will be strengthened through the negotiation of performance contracts between the State and these SOEs.

- Aiming to strengthen the monitoring and supervision of other enterprises fully or partially owned by the State ("public corporations," around 156 of which are supervised by IGEPE), we will prepare and submit to the Council of Ministers a proposal for a Law on the Corporate Sector of the State, by end-October 2014.We will require them to disclose and quantify in their financial statements (i) all direct and indirect support, including transfers, between the government and public enterprises on an annual basis, and (ii) the cost of any provision of goods or services at below-market prices and any other quasi-fiscal activities.

- We are also working to consolidate the State's portfolio of enterprises over the medium term, including through privatization and liquidation, and are receiving some technical assistance on this from the World Bank.

23. Enhancing transparency of the operations of public enterprises.

- **EMATUM monitoring**, the mechanisms for financial control of EMATUM will be the same as those applied to fully-owned SOEs. This consists of the submission to the Ministries of Finance and Fishing of quarterly operating and financial reports starting in July 2014. EMATUM will also be subject to external audits and the publication of its accounts as of end-2014, by end-March 2015. The first year debt service on the private loan notes (PLN) it placed in 2013 of $850 million, which is due in March and September of 2014, was pre-financed by the borrowing operation. From 2015 on, the debt service on the $350m in PLNs allocated to the Ministry of Defense will be paid from the budget, and the debt service of the $500m PLNs remaining with EMATUM will be serviced from EMATUM's operations.

- **A strategy for the participation of state-owned enterprises in infrastructure projects** is under preparation with support from the World Bank.

24. Improving the monitoring and disclosure of fiscal risks. In order to help identify the fiscal risks associated with the activities of public corporations, we plan to:

(i) produce and publish an annual report on the overall financial performance of public enterprises (SOEs) and publicly-owned corporations (fully or majority-owned) on a timely basis for the budgetary preparation process; and

(ii) enforce the publication of the annual reports and audited accounts of large state-owned companies (including those created under commercial law).

FINANCIAL SECTOR POLICIES

A. Strengthen Monetary Policy Formulation And Implementation

25. Monetary policy framework. The BM will continue to strengthen the monetary policy framework and to improve the analytical and communication capacity in the monetary policy decision-making process, including improving its inflation forecast model with technical assistance.

26. The BM will continue pursuing reforms in its Monetary Policy Operations aimed at improving liquidity management.

- **Information sharing and coordination between Ministry of Finance (MF) and BM**. Progress has been achieved in the coordination between the MF and BM in recent years to improve liquidity management. This includes the supply of monthly data on the estimates of revenue and expenditure for one month ahead, but we will continue working on extending revisions of the near-term forecasts over a longer horizon within the annual budget framework.

- **Money market management and government securities liquidity.** The reforms introduced in 2013 allowed unlimited transferability of TB´s in the secondary market and boosted the use of securities in transactions between market participants. For 2014, the BM intends to (i) enhance the use of open market operations, (ii) reinforce the framework for liquidity forecasting, and (iii) continue the coordination work with the MF and the Stock Exchange aiming at accepting T-bonds as collateral in money market operations.

B. Financial Sector Surveillance

27. The BM will consolidate its efforts in enhancing banking system supervision and strengthening crisis management.

- **Strengthening bank supervision**. The results of the new round of stress test show that the banking system remains resilient to shocks on balance sheet and shocks to deposit distress, but credit portfolio concentration continues the main threat. Stress testing will be performed quarterly and the BM continues to strengthen data collection that was identified as the main obstacle to effective stress testing. In January 2014, the BM revised the regulations on nonperforming loans which includes a criterion for classification and provision of loans that is internationally comparable.

  - **Risk-based supervision and Basel II adoption.** The BM will continue to conduct risk-based surveillance to all banks in the course of 2014 and to review of the regulations on concentration limits, including investment abroad. The implementation of the Basel II Capital Accord started on January 1st, 2014, as planned, following the approval and publication of the relevant regulations.[1]

[1]Notices: (i) 11-13/GBM/2013 of October 31 on the basis for calculating minimum capital requirements to cover credit risk, operational risk and market risk; (ii) 14/GBM/2013 of October 31 on credit institution´s own funds; (iii) 15/GBM/2013 of October 31 ratios and prudential limits; (ii). 19-20/GBM/2013 of October 31 about Market discipline-Disclosure requirements and the Process of supervision review, respectively

- **Financial Sector Contingency Plan.** The Financial Sector Contingency Plan was published on June 11, 2013. An internal manual for its implementation is under preparation, and an action plan for the simulation exercise will be prepared, approved by the Board, by end-November 2014 **(structural benchmark**). The simulation exercise will be conducted with the technical assistance from the World Bank.

- **Deposit Insurance Fund (DIF).**While the Executive Board of the DIF has been working to make the DIF operational, the process is delayed by the need to revise the total deposit according to the developments in the banking system as at December 2013.With financial support from KFW, the Government is expecting to make its initial contribution to the Fund by the end of the third quarter of 2014, according to the initial capital approved by Decree 49/2010.

C. Financial Sector Development

28. **In April 2013, the Council of Ministers approved the Financial Sector Development Strategy (FSDS) for 2013-22**. Its main objectives are to: (i) maintain financial sector stability; (ii) increase access to financial services and products, eliminating structural constraints in the economy, specifically those that limit financial intermediation and access to financial services; and (iii) increase the supply of private capital to support private sector development. Dissemination work is ongoing. A multi-agency steering committee was set up to monitor the implementation of the FSDS, including based on quarterly performance targets for the different agencies involved. The authorities plan to establish a technical coordination unit shortly.

    - **Promoting financial inclusion.** The BM is developing a National Financial Inclusion Strategy in order to implement this pillar of the FSDS. A draft will be prepared by end-December 2014.

- **Establishing credit registry bureaus** (CRB). The law on the creation of private credit registry bureaus [was submitted to Parliament in February 2014] **(structural benchmark).**The BM will prepare the regulation to implement the Law six months after its approval.

- **Promotion of mobile banking**. Specific regulations governing mobile banking services are being drafted by a task force at the BM and expected to be completed in June 2014.Two regulations were proposed and are under discussion, namely: (i) Procedures for the provision of electronic payment products and services and (ii) Protection of funds resulting from the issue of electronic money. The BM has also approved the Regulation for Bank Cards and concluded the Memorandum of Understanding to be signed with *Instituto Nacional de Comunicações de Moçambique*, the national supervisor of communications. The regulations are under discussions with all stakeholders, including banks,*Mkesh* and *M-pesa* (the current e-money issuing institutions)

- **Promotion of competition within the banking sector.** The revision of Notice 05/GBM/2009 is underway and will be completed by end-October 2014. It is aimed at promoting the transparency of prices and commissions for financial services and products.

- **Capital Market Development.** During 2013, the Stock Exchange's financial education program was implemented and included (i) visits and presentations to companies that are potential candidates for the Stock Market (big companies as well as small and medium enterprises); (ii) release of the compilation of the capital markets rules and regulations. We plan to continue these efforts in 2014 with a focus on small and medium-sized enterprises.

- **Centralizing the registry of security holdings**. The Central Securities Depository is expected to become operational by June 2014. This will enhance the efficiency of the market.

- **Strengthening the bank insolvency framework and the movable collateral framework.** The legal basis for insolvency procedures was established with the publication on June 11, 2013 of the regulations on emergency liquidity assistance, aimed at assisting the institutions that collect deposits and at guiding interventions to mitigate systemic risks. The BM is taking the lead to draft a Movable Collateral Bill, which is expected to be submitted to the Council of Ministers by end-December 2014 **(structural benchmark)**. Due to the unexpected complexity of the issue, the establishment of a moveable collateral registry is expected to be delayed to end-June 2015.

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

29. **AML/CFT Framework.** The Law on Anti-Money Laundering and Combating the Financing of Terrorism was approved in August 2013, and the draft of the related regulations were finalized and submitted to the Council of Ministers in March 2014. The preparation by the BM of guidelines for commercial banks on Anti-Money Laundering and Combating the Financing of Terrorism is also at an advanced stage and will be harmonized once the Regulation Law on AML/CFT is approved. Likewise, the revision to the Law 14/2007 establishing the Financial Intelligence Unit of Mozambique was submitted to the Council of Ministers for approval in March 2014.

- **There is a need for technical assistance for human resources capacity building** (GIFIM analysts, Criminal Investigation Police, Judicial Magistrates and Public Prosecutor’s Office), in matters of financial and economic crimes and money laundering**.**Further technical assistance will be discussed with the IMF Legal Department Mission scheduled for May 2014. We also expect assistance from the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).

E. Payment System

30. The BM will continue with the Reforms in the Payment System

- **Enhancing BM oversight practices**. The Oversight Manual was approved by the BM Board in May 2013, and will be published once cleared by the Legal Department. A revised *Regulation on Interbank Clearing and Settlement* has been approved and published by Notice 17/GBM/2013 on December 31, 2013. The newly created Oversight Unit will perform on-site inspections and will produce a monthly report on the payment system to the BM Board; the first annual oversight report is in preparation and will be completed by end-November 2014 **(structural benchmark).** In 2014, the BM will conduct an on-site inspection of a mobile banking operator, with the aim of verifying the degree of compliance of the recommendations of the inspection carried out in 2012. It will produce some liquidity and credit risk indicators of this Payment System. Additionally, during the second half of 2014 the BM will gradually introduce the Principles for Financial Markets Infrastructure released by BIS in 2012, with the support of technical assistance.

- **Developing the retail payments network (SIMO) shared by the BM and commercial banks**. Three commercial banks have connected to the SIMO network, while one additional bank is in the testing stage. It is expected that by June 2014 three of the four largest banks in Mozambique will be covered by SIMO. The other banks, including a group of ten banks sharing the Ponto 24 Network, will migrate in due course under their MoU with the BM.

F. Good Governance and Business Environment

31. Anti-Corruption Package. Five laws comprise the anti-corruption package. The *Penal and Penal Procedural Codes* have been submitted to Parliament in 2011, and are still under discussion. Following passage of the *Anti-Corruption Law*, a draft *Action Plan* for the effective implementation of anti-corruption legislation has been produced and is expected to be submitted to the Council of Ministers in May 2014.

32. **Improvement in the business environment.** In order to ensure an improvement in the business environment to attract investment into the country, the Government approved the following instruments:

- **Business Environment Improvement Strategy (EMAN II 2013-2017).**This document seeks to decentralize responsibilities and simplify procedures with a view to speeding up the business start-up process; the Government is expecting to adopt a system to monitor the implementation of the actions contained in the EMANII and for that purpose various monitoring systems are being studied.

- Approval by the Council of Ministers of the Single Form which harmonizes procedures for registering companies, licensing economic activities, obtaining NUIT, statement on the commencement of activities, obtaining the working hours and registration of employees on the Social Security System (INSS). This will contribute significantly to reduce the time and cost for starting up a business.

- Approval by the Council of Ministers of the new Regulations for the Licensing of Industrial Activities. This instrument reduces the time, procedures, costs and decentralizes the competency to authorise the micro, small and medium-sized industries to the Municipalities, One-Stop-Shop (BAU's) and Provincial Governors, respectively.

- Launch the pilot phase of the electronic platform for registration and licensing services (e-BAÚ) in the provinces of Gaza, Inhambane, Sofala, Nampula, Cabo Delgado and Maputo City. This will allow the BAÚs to be computerized with regard to the licensing of activities covered by the simplified, commercial, industry and tourism regimes. By September 2014, this platform will cover the services of NUIT assignment, declaration of initiation of activity, registration of legal entities, authorization of work schedule and registration of workers in the National Social Security System (INSS).

G. Program Monitoring

33. **The proposed assessment criteria** and indicative targets up to December 2014 are shown in Table 1. Table 2 provides a list of the proposed structural benchmarks. The 3rd PSI review is expected to be completed by end-December 2014 and the 4th review by end-June 2015.

MEFP Table 1. Mozambique: Quantitative Assessment Criteria and Indicative Targets under the 2013-16 PSI[1]

(Millions of meticais, unless otherwise specified)

	2013								2014		2014		
	End-Sept Indicative Target				End December Assessment Criteria				End-March Indicative Target	End-June Assessment Criteria	End-June Assessment Criteria	End-Sept Indicative Target	End-Dec Assessment Criteria
	Prog.	Adj.	Act.	Status	Prog.	Adj.	Actual	Status	Program		Proposed		
Assessment Criteria for end-June/December													
Net credit to the central government (cumulative ceiling)	1,504	4,497	-24,847	M	-12,242	-9,473	-17,368	M	889	-3	-7,985	-13,721	-2,954
Stock of reserve money (ceiling)	43,817	43,817	43,187	M	47,493	47,493	46,470	M	45,100	48,023	48,023	50,689	54,370
Stock of net international reserves of the BM (floor, US$ millions)	2,621	2,521	2,856	M	3,061	2,969	2,995	M	2,961	3,036	3,107	3,188	3,397
New nonconcessional external debt contracted or guaranteed by the central government or the BM or selected state-owned enterprises with maturity of one year or more (cumulative ceiling over the duration of the program, US$ millions)[2,3]	1,200	1,200	895	M	1,200	1,200	926	M	1,200	1,200	1,500	1,500	1,500
Stock of short-term external debt contracted or guaranteed by the central government (ceiling)[2]	0	0	0	M	0	0	0	M	0	0	0	0	0
External payments arrears of the central government (ceiling, US$ millions)[2]	0	0	0	M	0	0	0	M	0	0	0	0	0
Indicative targets													
Government revenue (cumulative floor)	81,891	81,891	98,685	M	126,285	126,285	126,589	M	25,519	58,036	75,365	112,616	143,957
Priority spending (cumulative floor)	76,041	76,041	68,498	NM	117,617	117,617	102,120	NM	20,686	45,244	46,299	80,738	121,294

Sources: Mozambican authorities and IMF staff estimates.

[1] For definition and adjustors, see the Program Monitoring Section of the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding.

[2] Assessed on a continuous basis.

[3] For end-June 2014, this will become effective as of the date of IMF Executive Board approval of the 2nd PSI

MEFP Table 2. Mozambique: Structural Benchmarks for 2014

Structural Benchmarks	Date of Implementation	Status
Submission to Parliament of draft law on the creation of private credit registry bureaus. (¶37 of the MEFP date June 7, 2013 and ¶30 of the MEFP date December 20)	End-February 2014	Met
The Government will finalize the validation process for the stock of VAT reimbursement requests pending as of end-December 2013 and provide a note to the Fund staff (¶16 of the MEFP date December 20, 2013)	End-March 2014	Not met (Implemented with delay)
The Government will complete the expansion of salary payments by direct bank transfer to all institutions covered by e-CAF and direct access to e-SISTAFE. (¶14 of the MEFP date December 20, 2013)	End-March 2014	Met
The Ministry of Planning and Development will approve, and share with IMF staff, a revised IIP with financial information for projects for which financing has been secured and summary project information to inform the DSA, MTEF and the budget. (¶15 of the MEFP date December 20, 2013 and ¶14 of this MEFP)	End-June 2014	
The Government will present VAT collections on a net basis in the 2015 budget proposal documents. (¶16 of the MEFP date December 20, 2013 and ¶16 of this MEFP)	End-October 2014	
The Government will finalize and fully operationalize the IT application for tax payments through banks for VAT and ISPC. (MEFP ¶16)	End-October 2014	Modified
The Board of BM will approve the action plan for the simulation exercise pertaining to the Financial Sector Contingency Plan. (¶28 of the MEFP date December 20, 2013 and ¶27 of this MEFP)	End-November 2014	
The BM will issue the first annual payments systems oversight report. (¶34 of the MEFP date December 20, 2013 and ¶30 of this MEFP)	End-November 2014	
The government will either pay or securitize the stock of valid VAT reimbursement requests submitted up to end-2013. (MEFP ¶16)	End-December 2014	Proposed
The Government will establish a movable collateral registry. (¶30 of the MEFP date December 20, 2013 and ¶28 of this MEFP)	End-December 2014	

Attachment 2—Technical Memorandum of Understanding

April 23, 2014

1. This Technical Memorandum of Understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

DEFINITIONS

A. Net credit to the central government

2. Net credit to the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in project accounts with the banking system, recapitalization bonds issued to the Bank of Mozambique (BM), and proceeds from the signing fee for mineral resource exploration. Credits comprise bank loans, advances to the central government and holdings of central government securities and promissory notes. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The limits on the change in NCG by the banking system will be cumulative from end-December of the previous year.

3. The central government encompasses all institutions whose revenue and expenditure are included in the state budget (*Orçamento do Estado)*: central government ministries, agencies without financial autonomy, and the administration of 11 provinces. Although local governments (43 municipalities or *autarquias*) are not included in the definition because they are independent, part of their revenue is registered in the state budget as transfers to local governments.

4. For program purposes, net disbursements on the nonconcessional Portuguese credit line are excluded from the assessment criterion of NCG since the corresponding expenditure is not covered under the definition of central government specified in paragraph 3.

B. Government revenue and financing

5. Revenue is defined to include all receipts of the General Directorate of Tax (*Direcção Geral dos Impostos*, DGI), the General Directorate of Customs (*Direcção Geral das Alfândegas,* DGA), and nontax revenue, including certain own-generated revenues of districts and some line ministries, as defined in the budget. Revenue is gross revenue net of verified VAT refund requests (*pedidos verificadas de reembolsos solicitados*). Net receipts from privatization received by the National Directorate of State Assets (*Direcção Nacional do Património do Estado*) and unrealized profits transferred by the central bank to the treasury will not be considered as revenue (above the line) and will be accounted for as other domestic financing (below the line).

6. For the purpose of program monitoring, revenue is considered as collected at the time when it is received by the relevant government collecting agencies, in cash or checks, or through transfers into the respective bank account.

C. Priority social spending

7. Priority social spending is based on the PARPA program categories expanded to incorporate all areas under the new PARP. Accordingly, it will include total spending in the following sectors: (i) education; (ii) health; (iii) HIV/AIDS; (iv) infrastructure development; (v) agriculture; (vi) rural development; a (vii) governance and judicial system, and (viii) social action, labor and employment.

D. Reserve money

8. For the purposes of program monitoring reserve money is defined as the sum of currency issued by the BM and commercial banks' holdings at the BM. The target is defined in terms of the average of the daily end-of-day stocks in the month of the test date. The reserve money stock will be monitored and reported by the BM.

E. Net international reserves

9. Net international reserves (NIR) of the BM are defined as reserve assets minus reserve liabilities. The BM's reserve assets include (a) monetary gold; (b) holdings of SDRs; (c) reserve position at the IMF; (d) holdings of foreign exchange; and (e) claims on nonresidents, such as deposits abroad (excluding the central government's savings accounts related to mineral resource extraction concessions). Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guarantee for a third–party external liability (assets not readily available). The BM's reserve liabilities include: (a) all short-term foreign exchange liabilities to nonresidents with original maturity of up to and including one year; and (b) all liabilities to the IMF.

F. New nonconcessional external debt contracted or guaranteed by the central government, the BM, and selected state-owned enterprises, with maturity of more than one year

10. The ceiling on nonconcessional external debt applies to external debt contracted or guaranteed by the central government, the BM, the Road Fund, the water authorities (FIPAG), the electricity company (EDM), and the hydrocarbon company (ENH), or by enterprises and agencies in which the above entities hold a majority stake. It also applies to debt contracted by these four state-owned enterprises from domestic banks or from other state-owned enterprises that is contractually inter-related to external nonconcessional loans.

11. The ceiling applies to external debt with original maturity of one year or more and with a grant element below 35 percent. The grant element is calculated using a discount rate of 5 percent.

12. The term 'debt' will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted on August 3, 1979, as amended August 31, 2009, effective December 1, 2009. The concept of external debt is defined on the basis of the residency of the creditor. This assessment criterion is defined cumulatively from the beginning of the program and will be assessed on a continuous basis.

G. Stock of short-term external debt contracted or guaranteed by the central government

13. The central government will not contract or guarantee external debt with original maturity of less than one year. This assessment criterion applies to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted on August 3, 1979, as amended August 31, 2009, effective December 1, 2009. The concept of external debt is defined on the basis of the residency of the creditor. Excluded from this assessment criterion are short-term, import-related trade credits. This assessment criterion will be assessed on a continuous basis.

H. External payments arrears of the central government

14. The government undertakes not to incur payments arrears on external debt contracted or guaranteed by the central government, with the exception of external payments arrears arising from central government debt that is being renegotiated with creditors. This assessment criterion will be assessed on a continuous basis.

I. Foreign program assistance

15. Foreign program assistance is defined as grants and loans received by the Ministry of Finance through BM accounts excluding those related to projects (Table 1).

J. Actual external debt service payments

16. Actual external debt service payments are defined as cash payments on external debt service obligations of the central government and central bank, including obligations to Paris Club and other bilateral creditors rescheduled under enhanced HIPC Initiative completion point terms, multilateral creditors, and private creditors, but excluding obligations to the IMF (Table 1).

ADJUSTERS

A. Net international reserves

17. The quantitative targets (floors) for net international reserves (NIR) will be adjusted:

- downward by the shortfall in external program aid less debt service payments (up to US$100 million), compared to the program baseline (Table 1);
- upward by any windfall capital gain tax receipts (beyond the programmed amounts) in excess of US$ 30 million collected during the program period, less (i) payments beyond those programmed on outstanding VAT refund requests, and (ii) any other debt reduction operations vis-à-vis the domestic nonbank sector (Table 2);

- downward/upward for any revision made to the end-year figures corresponding to the previous year; and
- downward to accommodate higher external outlays because of natural disasters, up to US$20 million.

B. Net credit to central government

18. The quantitative targets (ceilings) for net credit to the central government (NCG) will be adjusted:

- upward by the shortfall in the MT value of external program aid receipts less debt service payments (up to the MT equivalent of US$100 million at exchange rates prevailing at the respective test dates), compared to the program baseline (Table 1);
- downward by any windfall capital gain tax receipts (beyond the programmed amounts) in excess of US$ 30 million collected during the program period, less (i) payments beyond those programmed on outstanding VAT refund requests, and (ii) any other debt reduction operations vis-à-vis the domestic nonbank sector (Table 2);
- downward by privatization proceeds in excess of those envisaged in the program, unless these proceeds are deposited in the government's savings accounts abroad;
- downward (upward) for any increase (decrease) in domestic financing from the nonfinancial private sector; (Table 2) and
- upward to accommodate the higher locally-financed outlays because of natural disasters, up to the MT equivalent of US$20 million at exchange rates prevailing at the respective test dates.

C. Reserve money

19. The ceiling on reserve money for every test date will be adjusted downward/upward to reflect decreases/increases in the legal reserve requirement on the liabilities in commercial banks. The adjuster will be calculated as the change in the reserve requirement coefficient multiplied by the amount of commercial banks' liabilities subject to reserve requirement, considered at the end of the period of constitution of the required reserves prior to the change in regulation.

D. Government revenue

20. The quantitative targets (floors) for government revenue will be adjusted upward by any windfall capital gain tax receipts (beyond the programmed amounts) in excess of US$ 30 million collected during the program period (Table 2).

DATA AND OTHER REPORTING

21. The Government will provide Fund staff with:

- monthly and quarterly data needed to monitor program implementation in relation to the program's quantitative targets and broader economic developments;
- weekly updates of the daily data set out in Table 1;
- weekly data set out in Table 4 of the TMU dated May 26, 2005;
- monthly updates of the foreign exchange cash flow of the BM;
- monthly data on government revenues (in detail according to the fiscal table) with a lag not exceeding one month;
- monthly data on verified VAT refund requests;
- monthly information on the balance of government savings accounts abroad;
- monthly data on domestic arrears;
- monthly data on external arrears;
- monthly budget execution reports (that will also be published) with a time lag not exceeding 45 days;
- the "mapa fiscal" with a time lag not exceeding 60 days;
- monthly monetary survey data with a time lag not exceeding 30 days;
- monthly data on gross international reserves, with the composition by original currencies and converted to US dollars at the actual exchange rates; and
- quarterly balance-of-payments data with a time lag not exceeding 65 days;
- monthly disbursements on the nonconcessional Portuguese credit line with a time lag not exceeding 30 days.

22. The monetary survey made available by the BM will clearly identify donor-financed project deposits (with a breakdown between foreign and domestic currency) included in net credit to the government in both the central bank's and commercial banks' balance sheets.

23. The Government will provide Fund staff with documentation concerning external loan agreements once these have been signed and become effective.

TMU Table 1. Mozambique: Net Foreign Assistance, 2014

	2014			
	Q1	Q2	Q3	Q4
	Proj.	Proj.	Proj.	Proj.
Net foreign program assistance (US$ mn)	24	-18	84	216
Gross foreign program assistance	76	41	146	275
Program grants	76	41	146	10
Program loans	0	0	0	266
External debt service	52	59	62	59
Cumulative net foreign program assistance in US dollars	24	5	89	305
Gross foreign program assistance	76	116	262	537
External debt service	52	111	173	232
Net foreign program assistance (MT mn)	713	-564	2,612	6,822
Gross foreign program assistance	2,286	1,244	4,533	8,693
Program grants	2,286	1,244	4,533	306
Program loans	0	0	0	8,388
External debt service	1,574	1,808	1,921	1,871
Cumulative Net foreign program assistance in MTN millions	713	149	2,761	9,583
Gross foreign program assistance	2,286	3,530	8,063	16,757
External debt service	1,574	3,381	5,302	7,174

Source: Mozambican authorities and IMF staff estimates.

TMU Table 2. Mozambique: Programmed VAT Requests and Refunds, 2014

	Q1	Q2	Q3	Q4	Total
Windfall capital gains tax, in millions of meticais	16,064	0	0	0	16,064
Windfall capital gains tax, in millions of dollars	520	0	0	0	520
Budgeted VAT refund payments, in millions of meticais	1,125	1,125	1,125	1,125	4,500
Budgeted VAT refund payments, in millions of dollars	37	37	36	36	146
Reduction of VAT arrears, in millions of meticais	0	0	0	0	0
Reduction of VAT arrears, in millions of dollars	0	0	0	0	0